

CITY OF MELCHER-DALLAS

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

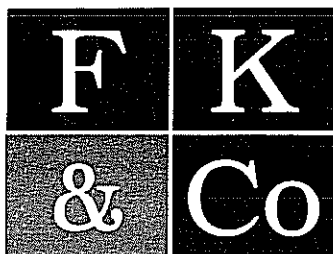
Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	4-5
Detailed Recommendations:	
	<u>Finding</u>
Segregation of Duties	A 7
Bank Reconciliations	B 7
Deposits	C 7
Business Transactions	D 8
Financial Condition	E 8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	F 8
Debt Service	G 8
City Council Minutes	H 9
Timesheets	I 9
Certified Budget	J 9
Water Revenue Note	K 9

City of Melcher-Dallas

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Louis Karpan	Mayor	Jan 2016
Jack Brown	Council Member	Jan 2018
Mark Herold	Council Member	Jan 2018
Terry Fisher	Council Member	Jan 2018
James Russell	Council Member	Jan 2016
Jerry Alexander	Council Member	Jan 2016
Martha Becker	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which are established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Melcher-Dallas for the period July 1, 2014 through June 30, 2015. The City of Melcher-Dallas' management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of the financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Melcher-Dallas, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Melcher-Dallas and other parties to whom the City of Melcher-Dallas may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Melcher-Dallas during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

November 17, 2015
Des Moines, Iowa

Detailed Recommendations

CITY OF MELCHER-DALLAS
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Melcher-Dallas (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For one of the two months reviewed, the bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

(C) Deposits – A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa. However, the depository resolution did not include one bank used by the City, and the depository resolution passed by the City did not document the maximum amount which may be kept on deposit, as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa. In addition, all depositories used by the City should be included on the City's depository resolution.

CITY OF MELCHER-DALLAS
 DETAILED RECOMMENDATIONS
 For the period July 1, 2014 through June 30, 2015

- (D) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Luann Alexander, wife of Council Member Jerry Alexander Owner of County Trash	Trash removal	\$2,554

In accordance with Chapter 362.5(k) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and these services were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (E) Financial Condition – At June 30, 2015, the City had a deficit balance of \$24,718 in the Capital Projects Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (G) Debt Service – A portion of the general obligation bond proceeds were recorded to the Capital Projects Fund rather than the Debt Service Fund.

Recommendation – General obligation bond proceeds should be recorded in the proper funds as required by the debt agreement.

CITY OF MELCHER-DALLAS
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

(H) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three meetings tested were not published within fifteen days.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund, a summary of all receipts and a list of approved claims. We noted that these requirements were not met by the City for some meetings tested.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund, summary of all receipts and ordinances are published as required.

(I) Timesheets – Although timesheets were prepared for all employees, there was no indication the timesheets were reviewed and approved.

Recommendation – The City should review and update payroll policies to ensure all employees submit detailed timesheets and the timesheets are reviewed and approved.

(J) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Also, the City Clerk did not use the correct original budget amount for one function when preparing the amended budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City should establish procedures to ensure accuracy for all future budgets prepared or amended.

(K) Water Revenue Note – The provisions of the water revenue note require sufficient monthly transfers to be made to a separate revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to this account.

Recommendation – The City should ensure sufficient monthly transfers are made to the water revenue note sinking account as required.